

Vestaburg Community School District
Vestaburg, Michigan

Financial Statements

For the Year Ended June 30, 2008



REHMANN ROBSON

Certified Public Accountants

VESTABURG COMMUNITY SCHOOL DISTRICT

JUNE 30, 2008

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VESTABURG COMMUNITY SCHOOL DISTRICT

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements:	
Balance Sheet – Governmental Funds	12
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual:	
General Fund	16-17
Statement of Fiduciary Assets and Liabilities	18
Notes to the Financial Statements	19-34
Combining and Individual Fund Financial Statements:	
General Fund Details of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	35-42
Combining Balance Sheet – Nonmajor Governmental Funds	43
Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	44
Internal Control and Compliance	
Independent Auditors' Report on Internal Control over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	45-49



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INDEPENDENT AUDITORS' REPORT

October 30, 2008

To the Board of Education
Vestaburg Community School District
Vestaburg, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the ***Vestaburg Community School District***, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the ***Vestaburg Community School District***, as of June 30, 2008, and the respective changes in financial position thereof and the budgetary comparisons for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise ***Vestaburg Community School District's*** basic financial statements. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report presents management's discussion and analysis of Vestaburg Community School District's (hereon referred to as "the District") performance during the fiscal year ending June 30, 2008. Please read this along with the financial statements of the District.

Financial Highlights

- The liabilities of the District exceeded its assets at the close of the June 30, 2008, fiscal year by \$2,136,429 (net assets deficit). Of this amount, \$593,959 (unrestricted net assets) may be used to meet the government's ongoing obligations for District programs.
- The General Fund received \$6,268,509 in revenues and had \$5,957,815 in expenditures. The General Fund's fund balance increased to \$1,427,404 from \$1,208,016.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,418,935 or 24% of total General Fund expenditures.
- The District's total debt decreased by \$389,247 during the current year due to principal payments made on bonds and accruals and payments of accrued interest on the State School Bond Loan.

Annual Report

The annual report consists of our Management's Discussion and Analysis, a series of financial statements, notes to those statements, and supplemental information. The financial statements (government-wide financial statements) provide information about the activities of the District as a whole. There are two District-wide statements: The Statement of Net Assets and the Statement of Activities. They present a year-end cumulative view and a longer-term view of the District's finances. All funds and capital assets are combined. The Fund Financial Statements (governmental fund statements) provide more detail showing the year's activity by fund. They also show the amount available to finance future programs.

In general, the Fund Financial Statements have changed very little as a result of GASB 34 requirements, and are comparable to prior year financial statements. The primary difference is that the Account Groups (General Fixed Assets and General Long-Term Debt) are no longer reported. The fund level statements are reported on a modified accrual basis. Only those assets that are "*measurable*" and "*currently available*" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

Government-wide Financial Statements

The Government-wide Financial Statements appear first in the financial statements. They present information on the District as a whole. They show net assets and a statement of activities for the year. These statements include all assets and liabilities using the full accrual basis of accounting, similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account.

Net assets, the difference between assets and liabilities, are one way of measuring the financial health of the District. In the statement of activities, the revenues less the expenses result in an increase or decrease in the net assets. Increases or decreases in net assets, over time, affect the financial health of the District. When analyzed together, the two statements help the reader determine whether the District is financially stronger or weaker as a result of the year's activities. However, the goal of the District is to provide quality education and a safe environment, not to make a profit.

The statement of activities covers all of the District's services, including instruction, supporting services, food service, athletics, and community services. Property taxes, unrestricted State Aid, and State and Federal grants finance most of these activities. The government-wide financial statements can be found on pages 10-11 of this report.

Fund Financial Statements

The Fund Financial Statements focus on individual parts of the District, by reporting the District's operation in more detail than the district-wide statements provide. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives (i.e., Food Service and Athletics). Many of the other funds are created to help control and manage money for a particular purpose, or to meet legal responsibilities for certain taxes, grants, and other money. The governmental funds of the District focus on showing how money flows into and out of funds, and the balances left at year-end. They provide a detailed, short-term view of the operations and services of the District. An accounting method called "modified accrual accounting" is used in fund accounting. This method measures cash and all other financial assets that can readily be converted to cash.

The fund statements are formatted to comply with the legal requirement of the Michigan Department of Education's Public School Accounting Manual. In the State of Michigan, the District's major instructional and instructional support activities are reported in their relevant funds. The funds used by the District include General Fund, Special Revenue Funds for food service and athletic activities and Debt Service Funds for bonded debt. The governmental fund financial statements can be found on pages 12-17 of this report.

Agency and Trust Accounts

Vestaburg Community School District is the trustee, or fiduciary, for its student activity and scholarship funds established for the benefit of our students. These fiduciary activities are reported in separate statements of fiduciary net assets. They are excluded from the other

financial statements because the District may not use the assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The fiduciary fund financial statements can be found on page 18 of this report.

Notes to the financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-34 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 35-44 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities exceeded assets by \$2,136,429 at the end of the June 30, 2008, fiscal year.

Summary of Net Assets

	<u>2007-2008</u>	<u>2006-2007</u>
Assets		
Current Assets	\$ 2,167,847	\$ 1,970,407
Capital Assets, net	<u>894,151</u>	<u>1,002,940</u>
Total assets	<u>\$ 3,061,998</u>	<u>\$ 2,973,347</u>
Liabilities		
Current Liabilities	\$ 554,297	\$ 557,865
Long-term Liabilities	<u>4,644,130</u>	<u>5,033,377</u>
Total Liabilities	<u>\$ 5,198,427</u>	<u>\$ 5,591,242</u>
Net Assets		
Invested in capital assets, net of related debt	\$ (2,817,882)	\$ (4,030,437)
Restricted for Debt Service	87,494	127,390
Unrestricted	<u>593,959</u>	<u>1,285,152</u>
Total Net Assets	<u>\$ (2,136,429)</u>	<u>\$ (2,617,895)</u>

A substantial portion of the District's assets (29%) reflects its investment in capital assets (i.e., land, buildings, vehicles, and equipment), less accumulated depreciation. The District uses these capital assets to provide services to the students; consequently, these assets are not available for

future spending. Of the District's governmental assets, 32% are held in cash and investments. The largest portion is in the general fund, to fund the yearly operations of the district. The District's investment in its capital assets is reported net of related debt; it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Long-term liabilities include general obligation bonds used to finance acquisition of capital assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported to show legal constraints which limit use of some of the assets. Debt covenants and legislation limit the District's ability to use those net assets for day-to-day operations.

The net assets represent the accumulated results of all past years' activities. This amount will be affected by the year-to-year combined operations. The summary of this years' activity for the District as a whole are reported below.

The District's net assets increased by \$440,042 during the current fiscal year. Most of this decrease largely reflects the degree to which ongoing revenues exceeded ongoing expenses.

Statement of Net Assets from Operating Results

	<u>2007-2008</u>	<u>2006-2007</u>
Revenue		
Program revenue		
Charges for services	\$ 178,784	\$ 146,600
Grants and categoricals	531,561	439,316
General revenue		
Property taxes	892,837	816,794
State foundation allowance	5,527,408	5,458,759
Other	<u>19,320</u>	<u>31,846</u>
Total revenue	<u>\$ 7,149,910</u>	<u>\$ 6,893,315</u>
Function/Program expenses		
Instruction	\$ 3,754,095	\$ 4,015,619
Support services	2,213,086	2,442,169
Food service	295,065	337,942
Athletics	140,852	142,060
Interest on long-term debt	207,347	218,030
Unallocated depreciation	<u>99,423</u>	<u>176,651</u>
Total Expenses	<u>\$ 6,709,868</u>	<u>\$ 7,332,471</u>
Increase (decrease) in Net Assets	<u>\$ 440,042</u>	<u>\$ (439,156)</u>

The change in net assets differs from the change in fund balance because of different accounting requirements. A reconciliation appears later in the financial statements.

There was an increase in net assets during the current year primarily because of decreases in instruction, support services, and unallocated depreciation. Instruction and support services expenses decreased because of changes in numbers of employees and use of lower cost contracted services. The decrease in depreciation is due to the age of the district's capital assets.

Summary of Fund Financial Statements

As noted earlier, the District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it, and may provide more insight into the District's overall financial health.

The combined Governmental fund balance of \$1,595,255 increased by \$185,255 from last year. The General Fund, which is the primary operating fund, increased by \$219,388.

The District adopts an annual appropriated budget for its General and Special Revenue Funds. Budgetary comparison statements have been provided for the General Fund to demonstrate compliance with those budgets.

The Special Revenue fund balance, which includes Athletic and Food Service, had relatively no changes. The fund balance in Food Service at June 30, 2008, was \$76,051. The Athletic Fund had a fund balance of \$4,306.

The Debt Service Funds show a fund balance of \$87,494.

General Fund Budget

By law, the District must establish an original budget in June, with a beginning fiscal date of July 1, for the General Fund and Special Revenue Funds. Budgets are revised twice a year. Approximately 90% of the District's revenue comes from the State through a Foundation Allowance and Categoricals (specific program grants). The State Foundation Allowance is based on student enrollment and an amount per pupil designated by the State. Therefore, the budget is primarily based on an estimate of the student population including the following September count, the per-pupil amount set by the State, and an estimate of the categoricalals that will be approved by the State.

State law requires that budgets be amended to ensure that expenditures do not exceed appropriations. Original and final budgets, as well as actual amounts paid and received, are included in the basic financial statements.

The General Fund received \$6,268,509 in revenues and had \$5,957,815 in expenditures. The General Fund's fund balance increased to \$1,427,404 from \$1,208,016.

At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,418,935 or 24% of total General Fund expenditures.

The actual General Fund expenditures were within 2.7% of the final budget amounts. The actual General Fund revenues were within 0.5% of the final budget amounts.

Capital Assets

As of June 30, 2008, the District had \$894,151 in capital assets including land, buildings, buses, vehicles, musical instruments, property and technology.

Capital Assets (net of depreciation)

	<u>2007-2008</u>	<u>2006-2007</u>
Land	\$ 75,000	\$ 75,000
Buildings	2,437,630	2,431,581
Vehicles	661,104	911,190
Equipment – Other	<u>2,406,379</u>	<u>2,383,969</u>
Subtotal	5,880,113	5,801,740
Less accumulated dep	<u>(4,685,962)</u>	<u>(4,798,800)</u>
Net Capital Assets	<u>\$ 894,151</u>	<u>\$ 1,1002,940</u>

The change in capital assets reflects the purchase of vehicles, small furnishings and equipment for a total of \$97,429 and the disposal of other vehicles for a net total of \$22,044. In addition, annual depreciation for the year was \$184,174, which decreased net capital assets.

Additional information of the District's capital assets can be found in note III.C. in the notes to the financial statements.

Long-term Debt

The long-term obligations for the District decreased from \$5,033,377 at the end of 2006-2007 to \$4,644,130 at the end of 2007-2008. The total decrease includes the payment of debt service requirements for the 2005 refinancing of the 1996 Government obligation bonds and the payment of debt service requirements and increase in accrued interest on school bond loans outstanding.

Additional information on the District's long-term debt can be found in note III. F. in the Notes to Financial Statements.

Economic Factors and Next Year's Budget and Rates

Since most of the District's revenue is derived from the per pupil foundation allowance, student enrollment as reported in the blended count is one of the key factors in forecasting revenue. Once the final student count is known in late October, State law requires the District to amend

the budget if actual revenues will vary significantly from those originally appropriated. Under State law, the District cannot access additional property tax revenue for general operations.

The State periodically holds a revenue-estimating conference. Based on the results of the most recent conference, the State estimates funds sufficient to increase the per pupil foundation amount by \$56 per pupil, this will bring the per pupil amount to \$7,260. The State budget conference is also projecting distributions of \$56 per pupil in “equity payments.” This would raise the minimum per pupil foundation grant to \$7,316 for the 2008-2009 school year.

Requests for Information

This financial report is designed to provide a general overview of the District’s finances, and to demonstrate the District’s accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to Bonnie Walker, Vestaburg Community School District, 7188 Avenue B, Vestaburg, MI 48891.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

VESTABURG COMMUNITY SCHOOLS
Statement of Net Assets
June 30, 2008

	Governmental Activities
<hr/>	
Assets	
Cash and cash equivalents	\$ 971,808
Receivables	1,096,780
Prepaid items and other assets	99,259
Capital assets not being depreciated	75,000
Capital assets being depreciated, net	<u>819,151</u>
Total assets	<u>3,061,998</u>
Liabilities	
Accounts payable and accrued liabilities	553,795
Unearned revenue	502
Long-term debt:	
Due within one year	203,962
Due in more than one year	<u>4,440,168</u>
Total liabilities	<u>5,198,427</u>
Net assets	
Invested in capital assets, net of related debt	(2,817,882)
Restricted for:	
Debt service	87,494
Unrestricted	<u>593,959</u>
Total net assets (deficit)	<u><u>\$ (2,136,429)</u></u>

The accompanying notes are an integral part of these financial statements.

VESTABURG COMMUNITY SCHOOLS

Statement of Activities For the Year Ended June 30, 2008

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction	\$ 3,754,095	\$ 17,517	\$ 342,585	\$ (3,393,993)
Supporting services	2,213,086	-	-	(2,213,086)
Food service	295,065	117,851	188,976	11,762
Athletics	140,852	43,416	-	(97,436)
Interest on long-term debt	207,347	-	-	(207,347)
Unallocated depreciation	99,423	-	-	(99,423)
Total	<u>\$ 6,709,868</u>	<u>\$ 178,784</u>	<u>\$ 531,561</u>	<u>(5,999,523)</u>
General revenues:				
Property taxes				892,837
Unrestricted state aid				5,527,408
Unrestricted investment earnings				<u>19,320</u>
Total general revenues				<u>6,439,565</u>
Change in net assets				440,042
Net assets, (deficit) beginning of year				<u>(2,576,471)</u>
Net assets, (deficit) end of year				<u>\$ (2,136,429)</u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

VESTABURG COMMUNITY SCHOOLS

Balance Sheet Governmental Funds June 30, 2008

	General Fund	Other Governmental Funds	Totals
Assets			
Cash and investments	\$ 777,606	\$ 194,202	\$ 971,808
Due from other governmental units	1,054,746	42,034	1,096,780
Due from other funds	21,760	-	21,760
Prepaid items	81,691	-	81,691
Inventories	8,469	9,099	17,568
	<u>\$1,944,272</u>	<u>\$ 245,335</u>	<u>\$2,189,607</u>
Total assets			
	<u>\$1,944,272</u>	<u>\$ 245,335</u>	<u>\$2,189,607</u>
Liabilities and fund balances			
Liabilities			
Accrued payroll	415,589	10,604	426,193
Accrued liabilities	101,279	2,584	103,863
Due to other funds	-	21,760	21,760
Deferred revenue	-	42,536	42,536
	<u>516,868</u>	<u>77,484</u>	<u>594,352</u>
Total liabilities			
	<u>516,868</u>	<u>77,484</u>	<u>594,352</u>
Fund balances			
Reserved for inventories	8,469	9,099	17,568
Unreserved:			
Undesignated	1,418,935	-	1,418,935
Undesignated, reported in nonmajor:			
Special revenue funds	-	71,258	71,258
Debt service funds	-	87,494	87,494
	<u>1,427,404</u>	<u>167,851</u>	<u>1,595,255</u>
Total fund balances			
	<u>1,427,404</u>	<u>167,851</u>	<u>1,595,255</u>
Total liabilities and fund balances	<u>\$1,944,272</u>	<u>\$ 245,335</u>	<u>\$2,189,607</u>

The accompanying notes are an integral part of these financial statements.

VESTABURG COMMUNITY SCHOOLS
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2008

Fund balances - total governmental funds	\$ 1,595,255
Amounts reported for governmental activities in the statement of net assets are different	
Capital assets used in governmental activities are not financial resources and therefore are	
Add: capital assets	5,580,113
Deduct: accumulated depreciation	(4,685,962)
Because the focus of governmental funds is on short-term financing, some assets will not	
Add: deferred long-term receivable	42,034
Certain liabilities, such as bonds payable, are not due and payable in the current period and	
Deduct: bonds payable	(4,644,130)
Deduct: accrued interest on bonds payable	<u>(23,739)</u>
Net assets (deficit) of governmental activities	<u><u>\$(2,136,429)</u></u>

The accompanying notes are an integral part of these financial statements.

VESTABURG COMMUNITY SCHOOLS**Statement of Revenue, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008**

	General Fund	Other Governmental Funds	Totals
Revenue			
Local sources	\$ 493,183	\$ 706,660	\$ 1,199,843
State sources	5,537,445	15,200	5,552,645
Federal sources	237,881	173,776	411,657
Total revenue	6,268,509	895,636	7,164,145
Expenditures			
Instruction	3,715,784	-	3,715,784
Supporting services	2,068,826	-	2,068,826
Food service activities	-	295,065	295,065
Athletic activities	-	140,852	140,852
Debt service:			
Principal repayment	-	209,141	209,141
Interest and fiscal charges	-	376,017	376,017
Capital outlay	90,853	-	90,853
Payments to other governmental units	82,352	-	82,352
Total expenditures	5,957,815	1,021,075	6,978,890
Revenue over (under) expenditures	310,694	(125,439)	185,255
Other financing sources (uses)			
Transfers in from other funds	10,429	229,125	239,554
Transfers out to other funds	(101,735)	(137,819)	(239,554)
Total other financing sources (uses)	(91,306)	91,306	-
Net change in fund balances	219,388	(34,133)	185,255
Fund balance, beginning of year, as restated	1,208,016	201,984	1,410,000
Fund balance, end of year	\$ 1,427,404	\$ 167,851	\$ 1,595,255

The accompanying notes are an integral part of these financial statements.

VESTABURG COMMUNITY SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2008

Net change in fund balances - total governmental funds	\$185,255
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	97,429
Deduct: depreciation expense	(184,174)
Deduct: loss on disposal of capital assets	(22,044)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Deduct: payments received on long-term Durant Settlement receivable	(7,118)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	209,141
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds

Deduct: increase in accrued interest payable on bonds	(11,436)
Add: decrease in accrued interest payable on the School Bond Loan Fund	172,989

Change in net assets of governmental activities:	<u><u>\$440,042</u></u>
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The accompanying notes are an integral part of these financial statements.

VESTABURG COMMUNITY SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund
Budget and Actual
For the Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Revenue				
Local sources:				
Property tax levy	\$ 318,497	\$ 318,497	\$ 350,675	\$ 32,178
Transfers from other districts:	32,000	68,249	109,177	40,928
Other	25,175	29,246	33,331	4,085
Total revenue from local sources	<u>375,672</u>	<u>415,992</u>	<u>493,183</u>	<u>77,191</u>
State sources	<u>5,354,768</u>	<u>5,596,623</u>	<u>5,537,445</u>	<u>(59,178)</u>
Federal sources	<u>195,500</u>	<u>227,625</u>	<u>237,881</u>	<u>10,256</u>
Total revenue	<u>5,925,940</u>	<u>6,240,240</u>	<u>6,268,509</u>	<u>28,269</u>
Expenditures				
Instruction:				
Basic programs:				
Elementary school	1,534,570	1,207,132	1,284,365	77,233
Middle school	730,679	533,428	695,896	162,468
Secondary school	979,013	897,832	905,475	7,643
Total basic programs	<u>3,244,262</u>	<u>2,638,392</u>	<u>2,885,736</u>	<u>247,344</u>
Added needs:				
Preschool	38,181	73,004	86,581	13,577
Compensatory education	178,811	246,268	245,459	(809)
Special Education	502,021	492,157	498,008	5,851
Total added needs	<u>719,013</u>	<u>811,429</u>	<u>830,048</u>	<u>18,619</u>
Total instruction	<u>3,963,275</u>	<u>3,449,821</u>	<u>3,715,784</u>	<u>265,963</u>
Supporting services:				
Pupil services:				
Guidance	195,392	197,296	192,762	(4,534)
Other pupil services	26,593	43,961	40,506	(3,455)
Total pupil services	<u>221,985</u>	<u>241,257</u>	<u>233,268</u>	<u>(7,989)</u>
Instructional Staff:				
Gifted and talented instruction	-	-	-	-
Improvement of instruction	18,295	11,682	5,501	(6,181)
Library	75,342	54,029	40,441	(13,588)
Computer assistance	139,273	139,934	130,523	(9,411)
Total instructional staff	<u>232,910</u>	<u>205,645</u>	<u>176,465</u>	<u>(29,180)</u>

continued...

VESTABURG COMMUNITY SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund
Budget and Actual
For the Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Expenditures				
Supporting services:				
General administration:				
Board of education	78,750	97,575	99,331	1,756
Executive administration	190,847	191,392	177,858	(13,534)
Total general administration	<u>269,597</u>	<u>288,967</u>	<u>277,189</u>	<u>(11,778)</u>
School administration	<u>394,798</u>	<u>417,848</u>	<u>419,703</u>	<u>1,855</u>
Business services:				
Fiscal services	70,667	64,563	78,063	13,500
Operation and maintenance of plant	598,289	573,942	537,969	(35,973)
Pupil transportation services	322,149	318,821	274,283	(44,538)
Other business services	105,000	103,702	71,886	(31,816)
Total business services	<u>1,096,105</u>	<u>1,061,028</u>	<u>962,201</u>	<u>(98,827)</u>
Total supporting services	<u>2,215,395</u>	<u>2,214,745</u>	<u>2,068,826</u>	<u>(145,919)</u>
Capital outlay	<u>20,000</u>	<u>88,970</u>	<u>90,853</u>	<u>1,883</u>
Payments to other governmental units	<u>50,000</u>	<u>50,000</u>	<u>82,352</u>	<u>32,352</u>
Total expenditures	<u>6,248,670</u>	<u>5,803,536</u>	<u>5,957,815</u>	<u>154,279</u>
Revenue over (under) expenditure	(322,730)	436,704	310,694	(126,010)
Transfers in	10,735	10,735	10,429	(306)
Transfers out	<u>(89,000)</u>	<u>(105,500)</u>	<u>(101,735)</u>	<u>3,765</u>
Net change in fund balance	(400,995)	341,939	219,388	(122,551)
Fund balance, beginning of year, as restate	<u>1,208,016</u>	<u>1,208,016</u>	<u>1,208,016</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 807,021</u></u>	<u><u>\$1,549,955</u></u>	<u><u>\$1,427,404</u></u>	<u><u>\$ (122,551)</u></u>

The accompanying notes are an integral part of these financial statements.

VESTABURG COMMUNITY SCHOOLS
Statement of Fiduciary Assets and Liabilities
June 30, 2008

	Agency Fund
Assets	
Cash and cash equivalents	<u><u>\$ 70,074</u></u>
Liabilities	
Due to student groups	<u><u>\$ 70,074</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Vestaburg Community School District (the “District”) has followed the guidelines of the Governmental Accounting Standards Board and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include entities for which the District is considered to be financially accountable.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended 2008.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the District reports the following fund types:

The *special revenue funds* are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes, where there is a need to determine the results of operations, specifically food service and athletic activities.

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

The *debt service funds* are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The *agency funds* account for assets held for other groups and organizations and is custodial in nature.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

D. Assets, liabilities and equity

1. Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the District are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

3. Inventory

All inventories are valued at cost using the first-in/first-out ("FIFO") method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

4. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30-50
Vehicles	8-15
Equipment and other	5-20

5. *Compensated absences*

District employees are not allowed to accumulate or carryover leave time and require no liability in the government-wide financial statements.

6. *Long-term obligations*

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

The General and Food Service Special Revenue funds are under formal budgetary control. The District does not formally adopt budgets for the Athletics Special Revenue Fund or the Debt Service Funds. Budgets shown in the financial statements are adopted annually on a basis consistent with generally accepted accounting principles (“GAAP”), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The amended budgets for the General and Special Revenue Funds are adopted on the object level, whereas the original budgets are adopted on an activity level.

All annual appropriations lapse at fiscal year-end.

B. Excess of expenditures over appropriations for budgetary funds

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures that are in excess of the amount appropriated. During the year ended June 30, 2008, the District incurred expenditures in the General Fund, which were in excess of the amounts appropriated in various activities as follows:

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
GENERAL FUND			
Basic programs	\$ 2,638,392	\$ 2,885,736	\$(247,344)
Added needs	811,429	830,048	(18,619)
School administration	417,848	419,703	(1,855)
Capital outlay	88,970	90,853	(1,883)
Payments to other governmental units	50,000	82,352	(32,352)

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

Statement of Net Assets

Government-wide Financial Statement Captions:

Cash and cash equivalents	\$ 971,808
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Statement of Fiduciary Net Assets

Cash and cash equivalents	<u>70,074</u>
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Total	<u>\$ 1,041,882</u>
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Notes to Financial Statements:

Deposits	<u>\$ 1,041,882</u>
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VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Investment and deposit risk

Interest rate risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The District has no investments for which ratings are required.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year-end, \$1,002,727 of the District's bank balance of \$1,041,882 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Michigan law authorizes the District to deposit and invest in:

- a. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposits issued by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States, United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

B. Receivables

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Total</u>	<u>Amount Not Expected to be Collected Within One Year</u>
Receivables:				
Intergovernmental	\$1,054,746	\$ -	\$1,054,746	\$ -
Durant settlement	<u>-</u>	<u>42,034</u>	<u>42,034</u>	<u>38,072</u>
Total receivables	<u>\$1,054,746</u>	<u>\$ 42,034</u>	<u>\$1,096,780</u>	<u>\$ 38,072</u>

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

C. Capital assets

Capital asset activity for the year ended June 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 75,000	\$ -	\$ -	\$ 75,000
Capital assets being depreciated:				
Buildings	2,431,581	6,049	-	2,437,630
Vehicles	911,190	68,970	(319,056)	661,104
Equipment and other	<u>2,383,969</u>	<u>22,410</u>	<u>-</u>	<u>2,406,379</u>
Total capital assets being depreciated	<u>5,726,740</u>	<u>97,429</u>	<u>(319,056)</u>	<u>5,505,113</u>
Less accumulated depreciation				
Buildings	(2,110,481)	(91,949)	-	(2,202,430)
Vehicles	(680,060)	(84,751)	297,012	(467,799)
Equipment and other	<u>(2,008,259)</u>	<u>(7,474)</u>	<u>-</u>	<u>(2,015,733)</u>
Total accumulated depreciation	<u>(4,798,800)</u>	<u>(184,174)</u>	<u>297,012</u>	<u>(4,685,962)</u>
Total capital assets being depreciated, net	<u>927,940</u>	<u>(86,745)</u>	<u>(22,044)</u>	<u>819,151</u>
Governmental activities capital assets, net	<u>\$ 1,002,940</u>	<u>\$ (86,745)</u>	<u>\$ (22,044)</u>	<u>\$ 894,151</u>

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Depreciation expense was charged to functions / programs of the primary government as follows:

Governmental activities:

Supporting services - Transportation	\$ 84,751
Depreciation - unallocated	<u>99,423</u>
Total depreciation expense – governmental activities	<u>\$ 184,174</u>

D. Payables

Accounts payable and accrued liabilities as of June 30, 2008, for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Fund Financial Statements:			
Accounts payable	\$ -	\$ 2,584	\$ 2,584
Salaries payable	415,589	10,604	426,193
Accrued expenses	<u>101,279</u>	<u>-</u>	<u>101,279</u>
	<u>\$ 516,868</u>	<u>\$ 13,188</u>	530,056
District-wide Financial Statements:			
Accrued interest on long-term debt			<u>23,739</u>
Total accounts payable and accrued liabilities			<u>\$ 553,795</u>

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

E. Interfund receivables, payables and transfers

At June 30, 2008, interfund receivables and payables in the fund financial statements consisted of the following:

Due to/from other funds:	
	<u>Due From</u>
Due to	<u>Nonmajor</u>
	<u>Governmental</u>
	<u>Funds</u>
General Fund	<u>\$ 21,760</u>

The District often reports interfund balances between many of its funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

For the year then ended, interfund transfers consisted of the following:

Transfer from General Fund to:

Non major funds:

Athletic	\$101,735
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Transfer from Food Service to:

General Fund	10,429
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Transfer from 1996 Debt Service to:

2005 Debt Service	<u>127,390</u>
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\$239,554

For the year ended June 30, 2008, the District transferred funds from the General Fund to the Athletic Fund to subsidize the athletics program. The 1996 debt issue was paid in full during the current year; therefore, the District transferred money from the 1996 Debt Service fund to the 2005 Debt Service fund in order to close out the 1996 Debt Service fund. In addition, the Food Service fund transfers money to the General fund to pay for indirect costs.

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

F. Long-term debt

The following is a summary of bond and loan transactions of the District for the year ended June 30, 2008:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
General obligation					
bonds	\$ 3,912,033	\$ -	\$(200,000)	\$ 3,712,033	\$ 203,962
State school bond loans	<u>1,121,344</u>	<u>49,034</u>	<u>(238,281)</u>	<u>932,097</u>	<u>-</u>
	<u>\$ 5,033,377</u>	<u>\$ 49,034</u>	<u>\$(438,281)</u>	<u>\$ 4,644,130</u>	<u>\$ 203,962</u>

Bonds payable at June 30, 2008, are comprised of the following individual issues:

2005 refunding bonds due in annual installments ranging from \$25,000 to \$205,000 through May 1, 2026; interest ranging from 2.5% to 4.25%

\$ 3,670,000

1998 Durant bonds are due in annual installments ranging from \$3,139 to \$7,296 through May 15, 2016; interest rate of 4.76%; annual payments are funded through State revenue sources.

42,033

\$ 3,712,033

The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service.

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

The District has entered into loan agreements with the State of Michigan for State School Bond Loans which were deposited into the 1996 Debt Retirement Fund. The District has agreed to repay the loans with interest, at rates and at the times determined by the State Treasurer. The addition to the balance of the State school bond loan in the current year is accrued interest and the reduction to the balance includes both principal and interest payments bringing the total balance of the interest on the loan at June 30, 2008, to \$36,109.

Annual debt service requirements to maturity for general obligation bonds (excluding the operating loan from the State School Bond Loan Program) are as follows:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 203,962	\$ 142,696	\$ 346,658
2010	224,398	144,848	369,246
2011	204,348	129,810	334,158
2012	204,555	122,603	327,158
2013	209,770	115,386	325,156
2014-2018	1,025,000	461,506	1,486,506
2019-2023	1,025,000	257,378	1,282,378
2024-2026	<u>615,000</u>	<u>52,275</u>	<u>667,275</u>
Totals	<u>\$ 3,712,033</u>	<u>\$ 1,426,502</u>	<u>\$ 5,138,535</u>

Advance refunding

On January 31, 2005, the District issued general obligation bonds of \$3,920,000. Proceeds from this bond issue were used to advance refund a portion of the 1996 general obligation bonds issued for school improvements. The refunded bonds mature as scheduled on May 1, 2006, through 2026. The balance of the defeased debt outstanding at June 30, 2008, is \$3,525,000.

G. Commitments and Contingencies

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, management does not believe such disallowances, if any, will be material to the financial position of the District.

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2008.

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

B. Property taxes

Property taxes are assessed as of December 31 each year and attach as an enforceable lien on property as of the following July 1. School property taxes are levied on December 1 each year, based on the previous years' assessment, by Township governments whose boundaries include property within the District, and are due by February 28. Delinquent real taxes are advanced to the District by the Counties involved. Taxes are recorded as revenue in the year levied. Taxes receivable are recorded for property taxes collected within 60 days of year end, if any.

C. Defined Benefit Pension Plan

Plan Description

The District contributes to the Michigan Public School Employees Retirement System ("MPSERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPSERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling (517) 322-5103.

Funding Policy

Member Investment Plan ("MIP") members enrolled in MIP prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 17.74% of annual covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPSERS for the years ended June 30, 2008, 2007, and 2006, were \$650,305, \$643,713, and \$428,775 respectively, equal to the required contributions for each year.

Other Postemployment Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980, with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

VESTABURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

D. Economic Dependency

The District received approximately 88% of its General Fund revenue from the Michigan Department of Education Membership Allowance. Due to the significance of this revenue source to the District, the District is considered to be economically dependent.

E. Restatements

In the District's General Fund, adjustments were made to recognize additional revenue within the year ended June 30, 2007. The net effect of these errors caused the District's General Fund fund balance to be understated. The errors also caused the deficit in the governmental activities of the District to be overstated. These errors have been corrected and had the following effect on the beginning equity:

	<u>General Fund</u>	<u>Governmental Activities</u>
Fund balance / (deficit), as previously reported	\$ 1,166,592	\$ (2,617,895)
Additional revenue to be recognized	<u>41,424</u>	<u>41,424</u>
Fund balance / (deficit), as restated	<u>\$ 1,208,016</u>	<u>\$ (2,576,471)</u>

* * * * *

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS**

VESTABURG COMMUNITY SCHOOLS
Details of Revenue, Expenditures and Changes in Fund Balance
General Fund
Budget and Actual
For the Year Ended June 30, 2008

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Revenue			
Local sources:			
Property tax levy	\$ 318,497	\$ 350,675	\$ 32,178
Interest	25,000	16,089	(8,911)
Transfers from other districts:			
Transportation	12,000	12,000	-
Medicaid	27,000	37,000	10,000
Special education	24,249	54,942	30,693
Other	5,000	5,235	235
Grants received from ISD's			
Other	4,246	17,242	12,996
Total revenue from local sources	<u>415,992</u>	<u>493,183</u>	<u>77,191</u>
State sources:			
State school aid - unrestricted	5,589,504	5,530,326	(59,178)
Durant	7,119	7,119	-
Total revenue from state sources	<u>5,596,623</u>	<u>5,537,445</u>	<u>(59,178)</u>
Federal sources - restricted:			
E.C.I.A. Title I - Carryover	3,804	26,263	22,459
E.C.I.A. Title I	107,265	98,911	(8,354)
Title VI	1,008	1,042	34
Safe and drug free schools	5,847	3,523	(2,324)
Headstart	43,890	45,220	1,330
MIBLSI	2,000	3,372	1,372
Title IId	1,008	150	(858)
Eisenhower Formula Title II	62,803	59,400	(3,403)
Total revenue from federal sources	<u>227,625</u>	<u>237,881</u>	<u>10,256</u>
Total revenue	<u>6,240,240</u>	<u>6,268,509</u>	<u>28,269</u>

continued...

VESTABURG COMMUNITY SCHOOLS
Details of Revenue, Expenditures and Changes in Fund Balance
General Fund
Budget and Actual
For the Year Ended June 30, 2008

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Expenditures			
Instruction:			
Basic programs:			
Elementary school:			
Salaries	\$ 753,106	\$ 769,885	\$ 16,779
Employee benefits	412,604	441,866	29,262
Purchased services	25,020	38,897	13,877
Supplies and materials	16,302	33,385	17,083
Other	100	332	232
Total elementary school	<u>1,207,132</u>	<u>1,284,365</u>	<u>77,233</u>
Middle school:			
Salaries	310,502	450,573	140,071
Employee benefits	196,436	216,685	20,249
Purchased services	14,490	15,978	1,488
Supplies and materials	11,600	12,649	1,049
Other	400	11	(389)
Total middle school	<u>533,428</u>	<u>695,896</u>	<u>162,468</u>
Secondary school:			
Salaries	550,155	541,375	(8,780)
Employee benefits	306,177	327,618	21,441
Purchased services	22,100	16,841	(5,259)
Supplies and materials	17,500	18,256	756
Other	1,900	1,385	(515)
Total secondary school	<u>897,832</u>	<u>905,475</u>	<u>7,643</u>
Total basic programs	<u>2,638,392</u>	<u>2,885,736</u>	<u>247,344</u>
Added needs:			
Special Education			
Salaries	319,295	317,823	(1,472)
Employee benefits	169,315	173,186	3,871
Purchased services	1,150	4,411	3,261
Supplies and materials	1,897	2,518	621
Other	500	70	(430)
Total special education	<u>492,157</u>	<u>498,008</u>	<u>5,851</u>

continued...

VESTABURG COMMUNITY SCHOOLS
Details of Revenue, Expenditures and Changes in Fund Balance
General Fund
Budget and Actual
For the Year Ended June 30, 2008

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Expenditures			
Instruction (continued):			
Added needs (continued):			
Preschool			
Salaries	\$ 46,135	\$ 46,311	\$ 176
Employee benefits	25,419	23,883	(1,536)
Purchased services	450	1,035	585
Supplies and materials	1,000	14,564	13,564
Other	-	788	788
Total preschool	<u>73,004</u>	<u>86,581</u>	<u>13,577</u>
Compensatory Education			
Salaries	151,079	155,295	4,216
Employee benefits	72,188	72,978	790
Supplies and materials	23,001	17,186	(5,815)
Total compensatory education	<u>246,268</u>	<u>245,459</u>	<u>(809)</u>
Total added needs	<u>811,429</u>	<u>830,048</u>	<u>18,619</u>
Total instruction	<u>3,449,821</u>	<u>3,715,784</u>	<u>265,963</u>
Supporting services:			
Pupil Services:			
Guidance			
Salaries	141,074	140,106	(968)
Employee benefits	50,922	48,944	(1,978)
Purchased services	300	2,817	2,517
Supplies and materials	5,000	895	(4,105)
Total guidance	<u>197,296</u>	<u>192,762</u>	<u>(4,534)</u>

continued...

VESTABURG COMMUNITY SCHOOLS
Details of Revenue, Expenditures and Changes in Fund Balance
General Fund
Budget and Actual
For the Year Ended June 30, 2008

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Expenditures (continued)			
Supporting services:			
Pupil Services (continued):			
Other pupil services			
Salaries	\$ 32,213	\$ 32,213	\$ -
Employee benefits	11,548	7,870	(3,678)
Purchased services	200	200	-
Supplies and materials	-	223	223
Total other pupil services	<u>43,961</u>	<u>40,506</u>	<u>(3,455)</u>
Total pupil services	<u>241,257</u>	<u>233,268</u>	<u>(7,989)</u>
Instructional Staff:			
Gifted and talented instruction:			
Purchased services	<u>-</u>	<u>-</u>	<u>-</u>
Total gifted and talented instruction	<u>-</u>	<u>-</u>	<u>-</u>
Improvement of instruction:			
Salaries	-	-	-
Employee benefits	1,082	48	(1,034)
Purchased services	10,600	5,453	(5,147)
Total improvement of instruction	<u>11,682</u>	<u>5,501</u>	<u>(6,181)</u>
Library:			
Salaries	29,790	23,314	(6,476)
Employee benefits	22,507	16,461	(6,046)
Supplies and materials	1,232	666	(566)
Other	500	-	(500)
Total library	<u>54,029</u>	<u>40,441</u>	<u>(13,588)</u>

continued...

VESTABURG COMMUNITY SCHOOLS
Details of Revenue, Expenditures and Changes in Fund Balance
General Fund
Budget and Actual
For the Year Ended June 30, 2008

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Expenditures (continued)			
Supporting services: (continued)			
Instructional Staff (continued):			
Computer assistance:			
Salaries	\$ 53,251	\$ 53,251	\$ -
Employee benefits	28,583	28,509	(74)
Purchased services	28,100	22,498	(5,602)
Supplies and materials	30,000	26,265	(3,735)
Total computer assistance	<u>139,934</u>	<u>130,523</u>	<u>(9,411)</u>
 Total instructional staff	 <u>205,645</u>	 <u>176,465</u>	 <u>(29,180)</u>
 General administration:			
Board of education			
Salaries	1,200	847	(353)
Employee benefits	53,825	59,791	5,966
Purchased services	30,500	28,966	(1,534)
Supplies and materials	50	17	(33)
Other	12,000	9,710	(2,290)
Total board of education	<u>97,575</u>	<u>99,331</u>	<u>1,756</u>
 Executive administration			
Salaries	122,633	116,191	(6,442)
Employee benefits	62,159	57,252	(4,907)
Purchased services	3,500	1,720	(1,780)
Supplies and materials	500	165	(335)
Other	2,600	2,530	(70)
Total executive administration	<u>191,392</u>	<u>177,858</u>	<u>(13,534)</u>
 Total general administration	 <u>288,967</u>	 <u>277,189</u>	 <u>(11,778)</u>
 School administration:			
Salaries	278,194	276,994	(1,200)
Employee benefits	137,384	141,299	3,915
Purchased services	200	-	(200)
Other	2,070	1,410	(660)
Total school administration	<u>417,848</u>	<u>419,703</u>	<u>1,855</u>

continued...

VESTABURG COMMUNITY SCHOOLS
Details of Revenue, Expenditures and Changes in Fund Balance
General Fund
Budget and Actual
For the Year Ended June 30, 2008

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Expenditures (continued)			
Supporting services: (continued)			
Business services:			
Fiscal services			
Salaries	\$ 7,431	\$ 6,687	\$ (744)
Employee benefits	19,546	23,349	3,803
Purchased services	30,836	31,704	868
Supplies and materials	3,500	3,603	103
Other	3,250	12,720	9,470
Total fiscal services	<u>64,563</u>	<u>78,063</u>	<u>13,500</u>
Operation and maintenance of plant			
Salaries	161,670	177,294	15,624
Employee benefits	97,472	105,501	8,029
Purchased services	231,500	196,203	(35,297)
Supplies and materials	82,550	58,875	(23,675)
Other	750	96	(654)
Total operation and maintenance of plant	<u>573,942</u>	<u>537,969</u>	<u>(35,973)</u>
Pupil transportation services			
Salaries	145,401	145,770	369
Employee benefits	62,682	58,405	(4,277)
Purchased services	34,278	4,944	(29,334)
Supplies and materials	76,150	64,859	(11,291)
Other	310	305	(5)
Total pupil transportation services	<u>318,821</u>	<u>274,283</u>	<u>(44,538)</u>
Other business services			
Employee benefits	56,242	39,602	(16,640)
Purchased services	47,460	32,284	(15,176)
Total other business services	<u>103,702</u>	<u>71,886</u>	<u>(31,816)</u>
Total business services	<u>1,061,028</u>	<u>962,201</u>	<u>(98,827)</u>
Total supporting services	<u>2,214,745</u>	<u>2,068,826</u>	<u>(145,919)</u>

continued...

VESTABURG COMMUNITY SCHOOLS
Details of Revenue, Expenditures and Changes in Fund Balance
General Fund
Budget and Actual
For the Year Ended June 30, 2008

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Expenditures (continued)			
Supporting services: (continued)			
Capital outlay:			
Supporting services:			
Instructional staff			
Computer assistance	\$ 20,000	\$ 21,133	\$ 1,133
Preschool	-	600	600
Compensatory education	-	150	150
Business services:			
Pupil transportation services	<u>68,970</u>	<u>68,970</u>	<u>-</u>
Total capital outlay	<u>88,970</u>	<u>90,853</u>	<u>1,883</u>
Payments to other governmental units	<u>50,000</u>	<u>82,352</u>	<u>32,352</u>
Total expenditures	<u>5,803,536</u>	<u>5,957,815</u>	<u>154,279</u>
Revenue over (under) expenditures	<u>436,704</u>	<u>310,694</u>	<u>(126,010)</u>

continued...

VESTABURG COMMUNITY SCHOOLS
Details of Revenue, Expenditures and Changes in Fund Balance
General Fund
Budget and Actual
For the Year Ended June 30, 2008

	Final Budget	Actual	Actual Over (Under) Final Budget
Other financing sources (uses)			
Transfers in	\$ 10,735	\$ 10,429	\$ (306)
Transfers out	(105,500)	(101,735)	3,765
	<u>(94,765)</u>	<u>(91,306)</u>	<u>3,459</u>
Total other financing sources (uses)			
	341,939	219,388	(122,551)
Net change in fund balance			
	1,208,016	1,208,016	-
Fund balance, beginning of year, as restated			
	<u>\$ 1,549,955</u>	<u>\$ 1,427,404</u>	<u>\$ (122,551)</u>
Fund balance, end of year			

VESTABURG COMMUNITY SCHOOLS

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2008

	<u>Special Revenue</u>	
	<u>Food Service</u>	<u>Athletics</u>
Assets		
Cash and cash equivalents	\$ 98,980	\$ 7,728
Due from other governmental units	-	-
Inventory	9,099	-
	<u> </u>	<u> </u>
Total assets	<u><u>\$ 108,079</u></u>	<u><u>\$ 7,728</u></u>
Liabilities and fund balances		
Liabilities		
Accrued payroll	\$ 10,604	\$ -
Accrued liabilities	2,584	-
Deferred revenue	502	-
Due to other funds	18,338	3,422
	<u> </u>	<u> </u>
Total liabilities	32,028	3,422
Fund balances		
Reserved for inventories	9,099	-
Unreserved:		
Undesignated	66,952	4,306
	<u> </u>	<u> </u>
Total fund balances	<u>76,051</u>	<u>4,306</u>
Total liabilities and fund balances	<u><u>\$ 108,079</u></u>	<u><u>\$ 7,728</u></u>

Debt Service			
1996 Debt Service	2005 Debt Service	Durant Debt Service	Totals
\$ -	\$ 87,494	\$ -	\$ 194,202
-	-	42,034	42,034
-	-	-	9,099
<u>\$ -</u>	<u>\$ 87,494</u>	<u>\$ 42,034</u>	<u>\$ 245,335</u>
\$ -	\$ -	\$ -	\$ 10,604
-	-	-	2,584
-	-	42,034	42,536
-	-	-	21,760
-	-	42,034	77,484
-	-	-	9,099
-	87,494	-	158,752
-	87,494	-	167,851
<u>\$ -</u>	<u>\$ 87,494</u>	<u>\$ 42,034</u>	<u>\$ 245,335</u>

VESTABURG COMMUNITY SCHOOLS
Combining Statement of Revenue, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2008

	Special Revenue	
	Food Service	Athletics
Revenue		
Local sources	\$ 117,975	\$ 43,423
State sources	15,200	-
Federal sources	173,776	-
Total revenue	306,951	43,423
Expenditures		
Food service	295,065	-
Athletics	-	140,852
Debt service:		
Principal	-	-
Interest and fiscal charges	-	-
Total expenditures	295,065	140,852
Revenue over (under) expenditures	11,886	(97,429)
Other financing sources		
Transfers in	-	101,735
Transfers out	(10,429)	-
Total other financing sources	(10,429)	101,735
Net change in fund balance	1,457	4,306
Fund balance, beginning of year	74,594	-
Fund balance, end of year	\$ 76,051	\$ 4,306

Debt Service			
1996 Debt Service	2005 Debt Service	Durant Debt Service	Totals
\$ -	\$ 545,262	\$ -	\$ 706,660
-	-	-	15,200
-	-	-	173,776
-	545,262	-	895,636
-	-	-	295,065
-	-	-	140,852
-	209,141	-	209,141
-	376,017	-	376,017
-	585,158	-	1,021,075
-	(39,896)	-	(125,439)
-	127,390	-	229,125
(127,390)	-	-	(137,819)
(127,390)	127,390	-	91,306
(127,390)	87,494	-	(34,133)
127,390	-	-	201,984
\$ -	\$ 87,494	\$ -	\$ 167,851

INTERNAL CONTROL AND COMPLIANCE



**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

October 30, 2008

Members of the Board of Education
Vestaburg Community School

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Vestaburg Community School*, as of and for the year ended June 30, 2008, which collectively comprise the *Vestaburg Community School's* basic financial statements, and have issued our report thereon dated October 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered *Vestaburg Community School's* internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the *Vestaburg Community School's* internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the *Vestaburg Community School's* internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect

misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the *Vestaburg Community School's* ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the *Vestaburg Community School's* financial statements that is more than inconsequential will not be prevented or detected by the *Vestaburg Community School's* internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

2008-1

Recording, Processing and Summarizing Accounting Data

Criteria:	All governments are required to have in place internal controls over recording, processing, and summarizing accounting data (i.e., maintaining internal books and records).
Condition:	As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the recording, processing and summarizing of certain accounting data as part of its external financial reporting process. Accordingly, the government has placed reliance on its <i>external</i> auditors, who cannot by definition be considered a part of the government's <i>internal</i> controls.
Cause:	This condition was caused by the government's decision that it is more cost effective to have the external auditors recommend the necessary adjusting journal entries to its general ledger than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
Effect:	As a result of this condition, the government lacks internal controls over the recording, processing, and summarizing of accounting data, and instead relies, in part, on its external auditors for assistance with this task.
View of Responsible Officials:	The government has evaluated the cost vs. benefit of establishing internal controls over the recording, processing, and summarizing of accounting data, and determined that it is in the best interests of the government to rely on its external auditors to recommend the necessary adjustments.

Lack of Adequate Controls to Produce Full-Disclosure GAAP Basis Financial Statements

Criteria:	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (“GAAP”). This is a responsibility of the government’s management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).
Condition:	As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government’s ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government’s internal controls.
Cause:	This condition was caused by the government’s decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
Effect:	As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
View of Responsible Officials:	The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Segregation of Duties

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting safeguarding the District's assets.

Condition: During the course of our audit, we noted instances where multiple key financial duties were being performed by the same individual and there were no mitigating controls in place to ensure effective internal controls. Specifically, we found that the following incompatible functions are being performed by the same individual:

- (1) The physical receipting of cash and checks is done by an individual who also prepares and makes bank deposits, reconciles the bank statements and has access to the general ledger.
- (2) The individual who prepares checks to pay vendors and employees also has access to the general ledger.
- (3) Journal entries are not reviewed by an independent employee.

Cause: As is the case with many organizations of similar size, the District lacks a sufficient number of personnel in order to ensure a complete segregation of duties within its accounting function.

Effect: The District's current system of internal control does not appear to have sufficient safeguards in place to ensure that fraud or abuse is prevented or can be detected in a timely manner. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and be able to conceal it.

Recommendation: While there are no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the *Vestaburg Community School's* internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether *Vestaburg Community School's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of *Vestaburg Community School*, in a separate letter dated October 30, 2008.

Vestaburg Community School's responses to the findings identified in our audit are described above. We did not audit *Vestaburg Community School's* responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Audit Committee, the governing Board, management, others within the organization, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.